

FORT MONROE AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH
OF VIRGINIA)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2021

And Report of Independent Auditor

FORT MONROE AUTHORITY
(A Component Unit Of The Commonwealth of Virginia)

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Report of Independent Auditor

To the Board of Trustees
Fort Monroe Authority
Fort Monroe, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Correction of an Error

As described in Note 14 to the financial statements, certain errors resulting in the understatement of previously reported accounts payable and accrued expenses at June 30, 2020 were discovered during the current fiscal year. Accordingly, adjustments have been made to related net position as of June 30, 2020 to correct these errors. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Planning and Development Expenditures – General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Planning and Development Expenditures – General Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Planning and Development Expenditures – General Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Virginia Beach, Virginia
November 8, 2021

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

The management of the Fort Monroe Authority (“Authority”) offers readers of the Authority’s financial statements this narrative overview and analysis of the financial activities of the Authority, as of and for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

Financial Highlights

- The Authority’s net position increased during the fiscal year by \$831.6K. The increase resulted from a net operating surplus from governmental activities of \$1.74M offset by a net operating deficit of \$907.2K from business-type activities.
- The net operating surplus from governmental activities increased versus the prior fiscal year by \$925.0K. General revenues decreased by \$400.9K, while expenses and transfers decreased by \$1.33M compared to the prior year.
- The net operating deficit from business-type activities decreased by \$93.4K. Revenues increased by \$223.5K while expenses and transfers increased by \$130.1K compared to the prior fiscal year.
- For the fiscal year, the Authority had \$14.32M in total revenues compared to \$14.49M in the prior year. Governmental activities accounted for \$6.59M in revenue. The majority of these revenues came from state General Fund appropriations (\$6.16M), federal intergovernmental and other grants (\$379.3K), and other income (\$27.3K). Business-type charges for services, principally rental income, accounted for \$7.75M in revenue.
- Operating expenses of the Authority for the fiscal year totaled \$13.49M compared to \$14.68M in the prior year. Expenses and transfers for governmental activities (reuse and redevelopment planning) were \$4.83M compared to \$6.16M in the prior year. Expenses and transfers related to business-type activities (property leasing and maintenance, utility operations, and special events) were \$8.66M compared to \$8.53M in the prior year.
- For fiscal years 2021 and 2020, the Authority’s capital assets were \$354.8K and \$374.1M, net of accumulated depreciation, respectively.
- As of June 30, 2020, the Authority had an outstanding balance of \$353,311 on a long-term amortizing note with Old Point National bank. During the fiscal year, the Authority made accelerated payments to retire the principal. As of June 30, 2021, the principal balance of the term loan was paid in full and the Authority has no outstanding debt.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: management’s discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and required and other supplementary information.

The Authority’s financial statements present two types of statements, each with a different snapshot of the Authority’s finances. This focus is on both the Authority as a whole (government-wide) as well as on the individual funds. The government-wide financial statements provide both long- and short-term information about the Authority’s overall financial status. The fund financial statements (government and enterprise) focus on the individual parts of the Authority, reporting the Authority’s operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis for comparison (year-to-year or entity-to-entity), and enhance the Authority’s accountability to its public stakeholders.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Government-Wide Financial Statements

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The focus of the Statement of Net Position is to report the entity’s net position and how it may have changed from year to year. Net position – the difference between assets plus deferred outflows and liabilities plus deferred inflows – is one way to measure the Authority’s financial health or financial position. Over time, increases or decreases in an entity’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The Statement of Activities is focused on both the gross and net cost of various functions, which are supported by program revenues. All of the current-year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. This statement summarizes and simplifies the user’s analysis of the cost of governmental activities.

Component Unit of the Commonwealth of Virginia

Established by an Act of the 2011 General Assembly (“FMA Act”), on July 1, 2011 the Authority became the successor in interest by law to the Fort Monroe Federal Area Development Authority (“FMFADA”). Building on the work of the FMFADA, the Authority continues to focus on the preservation of the historic buildings, structures, and viewsheds at Fort Monroe; the education and interpretation of the history of the property; and the creation of business revenue through adaptive reuse of existing structures at Fort Monroe to reduce the future financial burden on the Commonwealth of Virginia (“Commonwealth”).

The FMA Act (Virginia Code Section 2.2-2336 et seq.) established the Authority as a public body corporate and political subdivision of the Commonwealth to perform essential governmental functions of the Commonwealth. The FMA Act establishes the organization of the Board of Trustees of the Authority and also sets out certain powers and duties of the Authority. The FMA Act allows the Authority to manage its own financial activities subject to certain provisions, including the requirement that the accounts of the Authority be audited annually by the Auditor of Public Accounts. Since the Authority was created to serve as the Commonwealth’s management agent, and since the Governor of the Commonwealth appoints a majority of the Authority’s Board of Trustees, and since the Authority is largely dependent on General Fund appropriations to meet its obligations, the Authority is a component unit of the Commonwealth. The information contained in these audited financial statements will be discretely presented in the Commonwealth’s annual financial reports.

Beginning in fiscal year 2011, the FMFADA first engaged in business-type activities, notably the sub-leasing of 118 apartments and 30 single-family residential units leased from the Army. During fiscal year 2012, the Authority expanded its business-type activities by leasing an additional 147 residential units and approximately 200,000 square feet of commercial and community space from the Army. During fiscal year 2013, the Authority deconstructed the 118 apartment units but continued to lease and manage the 177 residential units and commercial space to governmental and private tenants.

Beginning in fiscal year 2013, the Authority was required to present the Fort Monroe Foundation as a blended component unit.

On June 14, 2013, the Army transferred 312.75± acres of reversionary property and all the improvements thereon (buildings and infrastructure) and therein (underground utility systems) to Commonwealth ownership. A portion of the reversionary property totaling approximately 38.18± acres was not transferred due to potential environmental hazards covered under the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”).

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Beginning fiscal year 2014, the Authority took responsibility for the natural gas, water, and sewer master-metered accounts and began processing utility invoices to third party tenants at Fort Monroe. As a result, the Fort Monroe utility fund was created as an additional business-type activity.

On August 25, 2015, the Commonwealth donated 121.1± acres and all the improvement thereon to the United States of America Department of the Interior as part of the Fort Monroe National Monument.

On April 14, 2017, the U.S. Army transferred 73.81± acres and all the improvements thereon and therein to the Authority under the terms of the Economic Development Conveyance Agreement (“EDC”) between the parties executed on January 10, 2017. The Authority simultaneously deeded the property to the Commonwealth. A portion of the EDC property totaling approximately 9.37± acres was not transferred due to potential environmental hazards covered under CERCLA.

In 2018, the Army completed the remedial investigations and, in certain cases, remedial actions to address any environmental concerns governed by CERCLA. After approval of the remedial actions by the Department of Environmental Quality, the Army transferred 4.21± acres of reversionary property and all the improvements thereon and therein to the Commonwealth by deed signed on January 24, 2019. On March 12, 2019, the Army transferred 9.37± acres of EDC property and all the improvements thereon and therein to the Fort Monroe Authority. On April 15, 2019, the Army transferred 33.97± acres of reversionary property and all the improvements thereon and therein to the Commonwealth of Virginia.

During fiscal year 2018, the Fort Monroe Foundation made changes to its governance and by-laws. As a result, the Authority is no longer required to report the Fort Monroe Foundation financial statements as a blended component unit of the Authority.

On July 15, 2020, the Commonwealth and the Authority executed a Deed of Confirmation to transfer the 9.37± acre EDC environmental parcel to the Commonwealth and to establish consistency of title in the name of Commonwealth of Virginia, Fort Monroe Authority as provided by § 2.2-1148 of the Code of Virginia. As of June 30, 2021, the Commonwealth owns 313± acres of property at Fort Monroe.

The Army retains ownership of 4.97± acres of reversionary land. The reversion of this parcel, which contains the former Chamberlin Hotel, was delayed by a 2004 Act of the Assembly that deferred reversion of this property until December 31, 2087. During the 2021 General Assembly, legislation was passed that rescinded the deferred reversion. As a result, the Authority and the Virginia Department of Environmental Quality are working with the U.S. Army BRAC Office to complete the required environmental investigations and any remedial actions, if necessary, before the parcel can be transferred to the Commonwealth, which is expected to be completed in the next fiscal year.

The Army also retains ownership of 122.29± acres of federal surplus land that will be transferred directly to the Department of the Interior as part of the Fort Monroe National Monument once the environmental remediation process is complete.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's significant funds – not the Authority as a whole. Funds are accounting devices the Authority uses to keep track of specific sources of funding and spending for particular purposes.

The Authority currently has two types of funds:

General Fund – The General Fund is used to account for the financial resources appropriated for the planning and implementation of the reuse plan for the Commonwealth-owned property at Fort Monroe. The portion of the 313± acres of property not used or designated to be used for revenue generating purposes will be reported in the government fund. The General Fund will also include operating and compliance costs associated with the natural gas, water, sewer, and stormwater infrastructure. The operation of the Casemate Museum and the Visitor and Education Center are accounted for as part of the General Fund.

Enterprise Fund – The Enterprise Fund is used to account for the financial resources generated from business-type activities.

- The 313± acres owned by the Commonwealth include 82 residential buildings and 31 associated garage buildings containing approximately 460K square feet as well as 131 buildings and structures containing approximately 1.28M square feet of commercial and administrative space. These activities are accounted for in two sub-funds – residential leasing and commercial leasing.
- With the transfer of a portion of the property to Commonwealth ownership, which included the underground utility infrastructure, the Authority took responsibility for natural gas, water, and sewer utility systems and accounts. In November 2013, the Authority began billing third party users for natural gas, water, and sewer consumption. To track the utility revenue and costs, the Authority established a utility sub-fund. Subsequent to the property transfer in April 2017, the Army had been sending the electric bill to the Authority for payment. In April 2021, the electric utility contract agreement with Dominion Energy was transferred to the Authority. The Authority reports the billing for electric consumption in the utility fund as well.
- The Authority also provides free and ticketed special event activities and event space rentals to public and private parties. These activities are reported in a separate sub-fund of the Enterprise Fund.

These four sub-funds are reported on a consolidated basis in the Enterprise Fund section of these financial statements.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Financial Analysis of the Authority as a Whole

Net Position:

The following table reflects the condensed net position of the Authority (in thousands):

Table 1 – Net Position
At June 30, 2021 and 2020

	Governmental Activities		Business-type Activities		Government-wide Activities	
	2021	2020*	2021	2020*	2021	2020*
Current and Other Assets	\$ 23,700.7	\$ 21,701.9	\$ (16,185.7)	\$ (14,828.9)	\$ 7,515.0	\$ 6,873.0
Capital Assets	67.4	69.5	287.4	304.6	354.8	374.1
Total Assets	23,768.1	21,771.4	(15,898.3)	(14,524.3)	7,869.8	7,247.1
Deferred Outflows of Resources	681.7	677.7	110.4	110.7	792.1	788.4
	24,449.8	22,449.1	(15,787.9)	(14,413.6)	8,661.9	8,035.5
Current and Other Liabilities	3,160.0	2,796.2	1,508.4	1,958.5	4,668.4	4,754.7
Total Liabilities	3,160.0	2,796.2	1,508.4	1,958.5	4,668.4	4,754.7
Deferred Inflows of Resources	377.3	479.2	61.1	78.2	438.4	557.4
	3,537.3	3,275.4	1,569.5	2,036.7	5,106.8	5,312.1
Net Position:						
Net investment in Capital Assets	67.4	69.5	287.4	(48.7)	354.8	20.8
Restricted	661.4	615.9	10.8	329.9	672.2	945.8
Unrestricted	20,183.7	18,488.3	(17,655.6)	(16,731.4)	2,528.1	1,756.9
Total Net Position	\$ 20,912.5	\$ 19,173.7	\$ (17,357.4)	\$ (16,450.2)	\$ 3,555.1	\$ 2,723.5

* See Note 14 to the financial statements.

As of June 30, 2021, the Authority had total assets and deferred outflows of resources of \$8.66M compared to \$8.04M as of June 30, 2020. Total liabilities and deferred inflows of resources as of June 30, 2021 were \$5.11M compared to \$5.31M at the end of the prior fiscal year. For the current fiscal year-end, combined net position was \$3.55M compared to \$2.72M as of June 30, 2020.

During fiscal year 2021, the Authority’s total assets and deferred outflows of resources increased by \$626.4K. Current and other assets, which consists primarily of cash, cash equivalents, and restricted cash, increased by \$642K over the prior year. Capital assets, net of depreciation, decreased by \$19.3K over the prior year. Deferred outflows of resources, which are related to the Authority’s pension and other postemployment benefit (“OPEB”) obligations increased by \$3.7K. During the fiscal year, the Authority’s total liabilities and deferred inflows of resources decreased by \$205.3K. For the fiscal year total liabilities decreased by \$86.3K while deferred inflows of resources for pension and OPEB obligations decreased by \$119K.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Changes in Net Position:

The following table reflects revenues and expenses for the current and prior fiscal years (in thousands):

Table 2 – Changes in Net Position
Years Ended June 30, 2021 and 2020

	Governmental Activities		Business-type Activities		Government-wide Activities	
	2021	2020*	2021	2020*	2021	2020*
Revenues:						
Program Revenue:						
Charges for Services	\$ -	\$ -	\$ 7,748.0	\$ 7,524.5	\$ 7,748.0	\$ 7,524.5
Capital Grants and Contributions	379.3	379.3	-	-	379.3	379.3
General Revenues:						
Operating Appropriations	6,162.1	6,147.9	-	-	6,162.1	6,147.9
Other Revenues	27.3	442.4	-	-	27.3	442.4
Total Revenues	<u>6,568.7</u>	<u>6,969.6</u>	<u>7,748.0</u>	<u>7,524.5</u>	<u>14,316.7</u>	<u>14,494.1</u>
Expenses:						
Planning and Development	4,829.9	4,713.8	-	-	4,829.9	4,713.8
Property Admin and Maintenance	-	-	8,655.2	8,348.6	8,655.2	8,348.6
Contribution of buildings to the Commonwealth of Virginia	-	1,442.0	-	176.5	-	1,618.5
Total Expenses	<u>4,829.9</u>	<u>6,155.8</u>	<u>8,655.2</u>	<u>8,525.1</u>	<u>13,485.1</u>	<u>14,680.9</u>
Change in Net Position	<u>1,738.8</u>	<u>813.8</u>	<u>(907.2)</u>	<u>(1,000.6)</u>	<u>831.6</u>	<u>(186.8)</u>
Net Position - Beginning of Year	<u>19,173.7</u>	<u>18,359.9</u>	<u>(16,450.2)</u>	<u>(15,449.6)</u>	<u>2,723.5</u>	<u>2,910.3</u>
Net Position - End of Year	<u>\$ 20,912.5</u>	<u>\$ 19,173.7</u>	<u>\$ (17,357.4)</u>	<u>\$ (16,450.2)</u>	<u>\$ 3,555.1</u>	<u>\$ 2,723.5</u>

* See Note 14 to the financial statements.

Revenues

The majority of revenues attributable to governmental activities stem from state appropriations from the Commonwealth of Virginia’s General Fund. For the year ended June 30, 2021, General Fund appropriations were \$6.16M compared to \$6.15M in the prior fiscal year. Total other revenues decreased from \$442.4K in the prior year to \$27.3K in the current year. Other revenues for the prior fiscal year consist principally of donations from the Fort Monroe Foundation for the design, fabrication, and installation of exhibits installed in the new Fort Monroe Visitor and Education Center (“FMVEC”).

Business-type activities generated \$7.75M in revenues during the current fiscal year compared to \$7.53M for the prior fiscal year.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Expenses

Expenses for the fiscal year ended June 30, 2021 were \$13.49M compared to \$14.68M in the previous fiscal year. These expenses represent the costs for the development of and planning for the implementation of the reuse plan for the 313± acres of Commonwealth property at Fort Monroe, Virginia and the costs of operation for the residential and commercial interim leasing activities, the utility fund, and special events activities during the fiscal year. The expenses for FY20 included \$1.62M in transfer expenses for capital construction projects completed on state-owned buildings for recording on the state’s financial records.

For the fiscal year, governmental activity expenses decreased by \$1.33M. The transfer of construction project costs to the Commonwealth in the prior fiscal year totaled \$1.44M. Net of the transfer in the prior year, government activity expenses increased by \$116.1K. Business-type activity expenses increased by \$130.1K compared to the prior fiscal year. Net of the \$176.5K transfer expense in the prior year, business-type activity expenses increased by \$306.6K over the prior fiscal year.

Financial Analysis of the Authority’s Funds

For fiscal years 2021 and 2020, the Authority operated two funds – the General Fund and the Enterprise Fund. A fund is a grouping of related accounts that is used to maintain accountability and control over resources that have been segregated for specific activities or objectives. The Authority’s General Fund reflects operations of its planning and redevelopment efforts that are predominantly funded by Virginia appropriations. The Authority’s Enterprise Fund reflects business-related operations. The fund financial statements provide a more detailed look at the Authority’s most significant activities by focusing on the individual activities of the major funds.

For fiscal year 2021, General Fund expenditures were \$4.83M. This amount includes the cost of staffing and benefits for the majority of the Authority’s employees, the cost of the public works, site-wide security, and other consulting contracts, and the costs for the operation of the Casemate Museum and Visitor and Education Center.

Enterprise Fund expenses for the fiscal year were \$8.66M. These costs include the cost of staffing and benefits for Authority employees in residential and special events operations, as well as the costs for the repair and maintenance, insurance, utility, and payment in lieu of tax expenses for all building and structures not used by the Authority. The Enterprise Fund expenses include the net operating costs for electric, natural gas, water, and sewer utility systems. The Enterprise Fund also includes expenses related to the Authority’s event production and venue rentals activities.

Budgetary Highlights

In September 2019, the Authority submitted its request for Virginia General Fund support for the biennial period beginning on July 1, 2020 and ending June 30, 2022 (“FY21 and FY22”). The original submittal requested \$6,174,674 for operations support for each year in biennial budget, \$2M in maintenance reserve funding in each fiscal year, and \$27M for capital project funding. The Governor’s budget presented in December 2019 included the Authority’s request for \$6,174,674 in General Fund support for FY21 and FY22 and \$17.8M for capital project funding but did not include any maintenance reserve funding for FY21 or FY22.

During the 2020 General Assembly session, the Executive Director, working with Senator Locke, was able to submit an amendment to include \$2M in maintenance reserve for FY21 and FY22 in the Senate version of the budget bill. During the 2020 Budget Conference Committee, the maintenance reserve allocation was reduced to \$1M per year. The final biennial budget bill signed by the Governor included the \$6,174,674 in general fund appropriations for both years, \$1M in maintenance reserve allocations for both years, and \$17.8M in capital project funding.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

The Authority staff submits an annual budget proposal for the fiscal year to the Finance Committee at its meeting in June for review and recommendation for adoption by the Board of Trustees. At its meeting on June 15, 2020, the Finance Committee reviewed the FY21 operating budget and recommended it to the Board of Trustees for adoption. At its meeting on June 18, 2020, the Authority Board of Trustees adopted the FY21 budget recommended by the Finance Committee. The Authority submitted its FY21 annual budget to the Senate Finance and Appropriations Committee, House Appropriations Committee, and Department of Planning and Budget as required by the Authority Act. Capital Assets and Debt Administration Capital Assets

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2021, the Authority had invested \$354.8K in net capital assets as reflected in Table 3 (reflected in thousands). This amount includes \$368K in capitalized leasing commissions, which are amortized over the life of the related leases, \$59.7K in non-depreciable donations, \$260.1K in depreciable assets, and \$333K in accumulated depreciation and amortization. For comparison, at June 30, 2020, the Authority had net capital assets of \$374.1K. This amount included \$344.5K in capitalized leasing commissions, \$59.7K in non-depreciable donations, \$260.1K in depreciable assets, and \$290.2K in accumulated depreciation and amortization. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset.

**Table 3 – Capital Assets
At June 30, 2021 and 2020**

	Governmental Activities		Business-type Activities		Government-wide Activities	
	2021	2020	2021	2020	2021	2020
Donated Artifacts for Museum	\$ 59.7	\$ 59.7	\$ -	\$ -	\$ 59.7	\$ 59.7
Construction in Process	-	-	-	-	-	-
Leasing Commissions	-	-	368.0	344.5	368.0	344.5
Motor Vehicle Equipment	20.2	20.2	35.7	35.7	55.9	55.9
Furniture and Equipment	169.7	169.7	34.5	34.5	204.2	204.2
Accumulated Depreciation	(182.2)	(180.1)	(150.8)	(110.1)	(333.0)	(290.2)
Total Capital Assets, net	\$ 67.4	\$ 69.5	\$ 287.4	\$ 304.6	\$ 354.8	\$ 374.1

Short and Long-Term Debt

On June 27, 2017, the Authority executed a 15-year lease with the Department of General Services (“DGS”) for the entirety of Buildings 96 and 265. The lease required the Authority to perform certain improvements to the building prior to occupancy by DGS or other state entity. The roof and HVAC replacements were to be funded by Maintenance Reserve funds allocated for the Authority. The Authority executed a construction loan agreement with Old Point National Bank in September 2017 in the principal amount of \$1.2M to pay for the tenant improvement costs and capitalized lease commissions. Draws were made on the construction loan to pay for design fees and the first half of the leasing commission. Prior to the execution of the construction contract, the Department of Planning and Budget approved the Authority to use VPBA bond proceeds for the construction cost. After the construction was completed, the loan was converted to an amortizing term loan. As of June 30, 2020, the outstanding principal balance was \$353,311. During fiscal year 2021, the Authority made accelerated principal payments and was able to fully amortize the loan by fiscal year end. As of June 30, 2021, the Authority has no outstanding debt.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Economic Factors and Next Year’s Budget

During the redevelopment process, the Authority will be largely dependent on Virginia appropriations to bridge the gap between revenue received from business activities and the cost to maintain the property including the large inventory of vacant commercial buildings. The current state of the federal and state economy, particularly the current impact of the SARS-CoV-2 pandemic, may impact state revenues which, in turn, may limit the level of Virginia General Fund support available to the Authority.

As of the end of the fiscal year, the Authority had 170 residential units that were in leasable condition. The Authority has been successful in maintaining its residential occupancy over the last several years between 95-98%. However, without adequate funds to address deferred maintenance repairs to the properties, the Authority may not be able to address and maintain this level of occupancy. While the Authority experienced little impact to residential occupancy and revenues in the current fiscal year due to the SARS-CoV-2 pandemic, the continuation of the pandemic and the resulting economic impact might result in increasing unemployment and a decrease in occupancy and revenues if existing and/or future residents become unemployed.

The Authority currently has seven residential units that need significant repairs before the units are suitable for leasing. The Authority requested additional funding in FY21-22 to make repairs to these seven units. The General Assembly approved \$1M in maintenance reserve allocations in FY21 and FY22 to support building renovation projects at Fort Monroe. However, even with the seven additional units, the residential inventory will limit the Authority’s ability to generate significant, additional residential leasing revenue.

Residential unit rents at Fort Monroe are susceptible to rental rates and available inventory in the surrounding communities. If the available inventory of leasable homes remains constrained, it may result in higher rental rates due to the limited supply. However, if new residential inventory of comparable quality becomes available in the local market, it may put downward pressure on leasing rates which may result in lower residential revenue for the Authority. A new multi-family apartment complex (Monroe Gates) has been constructed in Phoebus which will supply a new inventory of residential units in the local area. Additional multi-family developments are being considered for the Phoebus area. An increase in the adjacent residential rental inventory may impact the occupancy and rental rates at Fort Monroe.

The Authority, working with its commercial leasing and maintenance contractor, Old Point Comfort Real Estate Services, continues to pursue new tenants for approximately 912K square feet of vacant office, retail, and industrial space. The majority of the vacant space is not fully ADA-accessible due to the lack of elevators. In addition, many of the buildings are subject to historic preservation standards that may limit the ability to reconfigure buildings to suit prospective tenant uses. While the Authority has been successful in leasing commercial buildings to state and local government and private tenants, the vast majority of that leasing has occurred in non-historic buildings. As of June 30, 2021, the Authority manages approximately 1.29M square feet of office, retail, and industrial space on Fort Monroe. Of that inventory, approximately 212K is leased to tenants, another 49K is licensed to private entities, and another 118K is reserved for the Authority’s use. That reflects a 29.4% occupancy for commercial buildings. The annual operating deficit for the commercial enterprise fund will continue to require significant General Fund support unless and until private developers invest in long-term lease transactions. Additionally, the threat of the continuing global pandemic may have a detrimental effect on business revenues for existing commercial tenants resulting in a reduction in or loss of occupied commercial space, while also limiting the potential for new commercial lease transactions.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

In response to the continued weakness in commercial leasing for the historic inventory, the Authority issued a Request for Qualifications and Statement of Interest in June 2018 to solicit input from private entities to propose future reuse alternatives for approximately 900K square feet of office, retail, and industrial space. Statements of Interests were received from 18 respondents in October 2018. After review by a working group created by the Executive Director, the Board of Trustees concurred with the Executive Director's recommendation on the 15 respondents deemed to be qualified to submit real estate proposals. Upon the completion of the Army transfers in April 2019, the Authority issued a Request for Real Estate Proposals ("RFREP") to those companies pre-qualified from the RFQ process. The same Executive Director's working group reviewed the 10 real estate proposals received in October 2019. At the November 2019 meeting of the Board of Trustees, the Board agreed with the Executive Director's recommendation that four of the respondents offered proposals that reflected sufficient experience with historic redevelopment, a thorough understanding of the Authority's governing documents, and consideration of the redevelopment on the visitor experience. At the February 2020 meeting of the Board, the Executive Director recommended that two of the proposals be approved for negotiation of long-term leases. The Board approved the Executive Director's recommendation. During the current fiscal year, the Authority successfully negotiated and executed a long-term ground lease with one of the respondents and terminated the negotiations with the other respondent. During the contingency period of the lease, the lessee must raise debt and equity sufficient to complete the project. The availability and financing rate for debt and the availability of public or private equity may be adversely impacted by national and international financial policies beyond the control of the Authority.

The adaptive reuse of the large inventory of historic structures by private investors may be eligible for federal and state historic rehabilitation tax credits. However, recent federal tax reform has attempted to remove or reduce the benefit of the federal historic tax credits. Additionally, in recent years there have been several bills in the Virginia General Assembly to reduce or eliminate the state historic tax credits. Any significant change to either tax credit program may severely affect the Authority ability to market the buildings for adaptive reuse by private investors.

Portions of the utility infrastructure at Fort Monroe may date back to as early as the 1890s. While the Authority has entered into a contract with a public works operator, the cost to maintain the utility infrastructure will continue to increase as the infrastructure continues to age. The Authority submitted a capital request for \$32M for infrastructure improvements during the FY19 General Assembly session. No funding was allocated. In preparation for the FY20 General Assembly session, the Authority submitted a \$27M capital funding request. The \$17.8M in additional capital funding in the FY21-22 budget will allow the Authority to continue with the current projects in the capital improvement plan ("CIP"). However, without additional capital support from the General Assembly, the Authority may not be able to deliver adequate utility service for the adaptive reuse of existing buildings or to support the limited new construction that may be allowed at Fort Monroe.

All of the property at Fort Monroe lies with the 100-year floodplain. New federal legislations, state legislation, or executive actions concerning development within the floodplain may impact the ability for the Authority or private entities to receive approval for construction projects. Executive Order 45 was introduced in November 2019 and contains new floodplain management requirements for construction on state-owned property within the floodplain. This Executive Order and any future executive or legislative actions concerning sea-level rise may impact the Authority's ability to recruit private investment to adaptively reuse vacant buildings at Fort Monroe.

During the 2021 General Assembly session, the Authority did not request any changes to its base budget. At its meeting on June 10, 2021, the Finance Committee reviewed the FY22 budget presented by the Authority staff. The Finance Committee recommended the budget for approval by the Board of Trustees. At its meeting on June 17, 2021, the Board of Trustees approved the FY22 budget. Copies of the approved budget were distributed to the Senate Finance and Appropriations Committee, the House Appropriations Committee, and the Department of Planning and Budget as required by Virginia Code Section 2.2-2339(5).

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)

June 30, 2021

Contacting the Authority's Financial Management

This financial report is designed to provide users (citizens, taxpayers, customers, clients, investors, and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives.

Questions concerning this report or requests for additional information should be directed to Deputy Executive Director, Fort Monroe Authority, 20 Ingalls Road, Fort Monroe, Virginia, 23651, telephone (757) 637-7778, or visit the Authority's website at www.fortmonroe.org.

BASIC FINANCIAL STATEMENTS

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF NET POSITION

JUNE 30, 2021

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Cash and cash equivalents	\$ 2,054,564	\$ 2,754,982	\$ 4,809,546
Restricted cash and cash equivalents	594,686	327,437	922,123
Grants and other receivables	468,513	539,294	1,007,807
Internal balances	20,496,904	(20,496,904)	-
Prepaid expenses	19,350	69,814	89,164
Lease receivable, straight-line	-	608,855	608,855
Net OPEB asset, VSDP	66,721	10,807	77,528
Capital Assets:			
Nondepreciable capital assets	59,705	-	59,705
Depreciable capital assets, net	7,663	287,425	295,088
Total Assets	23,768,106	(15,898,290)	7,869,816
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	532,747	86,287	619,034
Other Postemployment Benefit Deferrals:			
Deferred VSDP OPEB amounts	25,669	4,157	29,826
Deferred DHRM OPEB amounts	57,029	9,237	66,266
Deferred GLIP OPEB amounts	32,843	5,320	38,163
Deferred HICP OPEB amounts	33,461	5,419	38,880
Total Deferred Outflows of Resources	681,749	110,420	792,169
Total Assets and Deferred Outflows of Resources	\$ 24,449,855	\$ (15,787,870)	\$ 8,661,985

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2021

	Governmental Activities	Business-type Activities	Total Primary Government
LIABILITIES			
Accounts payable and accrued expenses	\$ 476,280	\$ 584,716	\$ 1,060,996
Accrued salaries	24,126	8,028	32,154
Accrued payroll tax and benefits	65,094	-	65,094
Accrued annual leave - due within one year	84,647	14,823	99,470
Unearned revenues	-	154,184	154,184
Deposits payable	-	340,180	340,180
Net pension liability	2,120,523	343,453	2,463,976
Net OPEB liability, DHRM	116,139	18,810	134,949
Net OPEB liability, GLIP	106,279	17,214	123,493
Net OPEB liability, HICP	166,937	27,038	193,975
Total Liabilities	3,160,025	1,508,446	4,668,471
DEFERRED INFLOWS OF RESOURCES			
Deferred pension amounts	106,451	17,242	123,693
Other Postemployment Benefit Deferrals:			
Deferred VSDP OPEB amounts	21,625	3,503	25,128
Deferred DHRM OPEB amounts	218,576	35,402	253,978
Deferred GLIP OPEB amounts	12,739	2,063	14,802
Deferred HICP OPEB amounts	17,896	2,898	20,794
Total Deferred Inflows of Resources	377,287	61,108	438,395
NET POSITION			
Net investment in capital assets	67,368	287,425	354,793
Restricted	661,407	10,807	672,214
Unrestricted (deficit)	20,183,768	(17,655,656)	2,528,112
Total Net Position	20,912,543	(17,357,424)	3,555,119
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 24,449,855	\$ (15,787,870)	\$ 8,661,985

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	Program Revenues				Net Revenues (Expenses) and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Primary Government
Functions/Programs:							
Governmental Activities:							
Planning and development	\$ 4,829,841	\$ -	\$ -	\$ 379,339	\$ (4,450,502)	\$ -	\$ (4,450,502)
Business-type Activities:							
Property administration and maintenance	8,655,226	7,748,032	-	-	-	(907,194)	(907,194)
Total	<u>\$ 13,485,067</u>	<u>\$ 7,748,032</u>	<u>\$ -</u>	<u>\$ 379,339</u>	<u>(4,450,502)</u>	<u>(907,194)</u>	<u>(5,357,696)</u>
General Revenues (Expenses):							
Operating appropriations from the Commonwealth of Virginia					6,162,096	-	6,162,096
Other revenues					27,280	-	27,280
Change in net position					1,738,874	(907,194)	831,680
Net position, beginning of year, as restated (Note 14)					19,173,669	(16,450,230)	2,723,439
Net position, end of year					<u>\$ 20,912,543</u>	<u>\$ (17,357,424)</u>	<u>\$ 3,555,119</u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
BALANCE SHEET – GENERAL FUND

JUNE 30, 2021

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 2,054,564
Restricted cash and cash equivalents	594,686
Grants and other receivables	468,513
Due from other funds	20,496,904
Prepaid expenses	19,350
Total Assets	<u><u>\$ 23,634,017</u></u>
LIABILITIES	
Accounts payable	\$ 476,280
Accrued salaries	24,126
Accrued payroll tax and benefits	65,094
Total Liabilities	<u>565,500</u>
FUND BALANCE	
Nonspendable	19,350
Restricted	594,686
Unassigned	22,454,481
Total Fund Balance	<u>23,068,517</u>
Total Liabilities and Fund Balance	<u><u>\$ 23,634,017</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY**(A Component Unit of the Commonwealth of Virginia)****RECONCILIATION OF BALANCE SHEET OF THE GENERAL FUND TO THE STATEMENT OF NET POSITION***JUNE 30, 2021*

Amounts reported in the Statement of Net Position differ from fund amounts as follows:

Fund Balance - General Fund	\$ 23,068,517
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	67,368
The net pension liability is not due and payable in the current period and, therefore, is not reported as a liability in governmental funds.	(2,120,523)
The net OPEB asset is not a current financial resource and, therefore, is not reported as an asset in governmental funds.	66,721
The net OPEB liability is not due and payable in the current period and, therefore, is not reported as a liability in governmental funds.	(389,355)
Deferred outflows and inflows of resources related to the net pension obligations are not recognized in governmental funds.	426,296
Deferred outflows and inflows of resources related to the net OPEB obligations are not recognized in governmental funds.	(121,834)
Annual leave is not due and payable in the current period and, therefore, is not reported in governmental funds.	(84,647)
Net Position of Governmental Activities	<u>\$ 20,912,543</u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GENERAL FUND**

YEAR ENDED JUNE 30, 2021

	<u>General</u>
Revenues:	
Intergovernmental Revenues:	
State	\$ 6,541,435
Other	27,280
Total Revenues	<u>6,568,715</u>
Expenditures:	
Planning and development	4,003,293
Capital outlay	738,464
Total Expenditures	<u>4,741,757</u>
Excess of Revenues over Expenditures	<u>1,826,958</u>
Net change in fund balance	1,826,958
Fund balance, beginning of year, as restated (Note 14)	<u>21,241,559</u>
Fund balance, end of year	<u><u>\$ 23,068,517</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

Amounts reported in the Statement of Activities differ from fund amounts as follows:

Net Change in Fund Balance - General Fund \$ 1,826,958

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense.

Depreciation expense (2,090)
(2,090)

Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in governmental funds.

Accrued annual leave (8,682)
Pension (111,901)
OPEB 34,589
(85,994)
Change in Net Position \$ 1,738,874

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF NET POSITION – ENTERPRISE FUND

JUNE 30, 2021

ASSETS

Current Assets:

Cash	\$ 2,754,982
Restricted cash, security deposits	327,437
Accounts receivables	539,294
Prepaid expenses	69,814
Total Current Assets	3,691,527

Noncurrent Assets:

Net OPEB asset, VSDP	10,807
Lease receivable, straight-line	608,855
Depreciable capital assets, net	287,425
Total Noncurrent Assets	907,087
Total Assets	4,598,614

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension amounts	86,287
Deferred VSDP OPEB amounts	4,157
Deferred DHRM OPEB amounts	9,237
Deferred GLIP OPEB amounts	5,320
Deferred HICP OPEB amounts	5,419
Total Deferred Outflows of Resources	110,420

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF NET POSITION – ENTERPRISE FUND (CONTINUED)

JUNE 30, 2021

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	\$ 584,716
Accrued salaries	8,028
Due to general fund	20,496,904
Accrued annual leave, current portion	14,823
Unearned revenues	154,184
Deposits payable	340,180
Total Current Liabilities	<u>21,598,835</u>

Noncurrent Liabilities:

Net pension liability	343,453
Net OPEB liability, DHRM	18,810
Net OPEB liability, GLIP	17,214
Net OPEB liability, HICP	27,038
Total Noncurrent Liabilities	<u>406,515</u>

Total Liabilities

22,005,350

DEFERRED INFLOWS OF RESOURCES

Deferred pension amounts	17,242
Deferred VSDP OPEB amounts	3,503
Deferred DHRM OPEB amounts	35,402
Deferred GLIP OPEB amounts	2,063
Deferred HICP OPEB amounts	2,898
Total Deferred Inflows of Resources	<u>61,108</u>

NET POSITION

Net investment in capital assets	287,425
Restricted for other postemployment benefits	10,807
Unrestricted (deficit)	(17,655,656)
Total Net Position	<u>\$ (17,357,424)</u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
ENTERPRISE FUND

YEAR ENDED JUNE 30, 2021

Revenues:	
Charges for Services:	
Rental income and other tenant charges	\$ 5,469,599
Utility income	1,850,016
Other income	428,417
Total Revenues	<u>7,748,032</u>
Expenses:	
Facilities maintenance and operation	8,127,677
General and administrative	473,546
Depreciation	40,642
Total Expenses	<u>8,641,865</u>
Operating Loss	<u>(893,833)</u>
Nonoperating Expenses:	
Other expenses	<u>(13,361)</u>
Total Nonoperating Expenses	<u>(13,361)</u>
Change in net position	(907,194)
Net position, beginning of year, as restated (Note 14)	<u>(16,450,230)</u>
Net position, end of year	<u>\$ (17,357,424)</u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF CASH FLOWS – ENTERPRISE FUND

YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:

Cash received from tenants	\$ 7,486,318
Cash paid to employees	(762,232)
Cash payments to suppliers for goods and services	<u>(6,343,619)</u>
Net cash provided by operating activities	<u>380,467</u>

Cash flows from capital and related financing activities:

Purchase of capital assets	(23,480)
Repayments of notes payable	(353,311)
Interest paid on long-term debt	<u>(13,361)</u>
Net cash used in capital and related financing activities	<u>(390,152)</u>

Net decrease in cash	(9,685)
Cash, beginning of year	<u>3,092,104</u>
Cash, end of year	<u><u>\$ 3,082,419</u></u>

Supplemental disclosures:

Cash	\$ 2,754,982
Restricted cash	<u>327,437</u>
	<u><u>\$ 3,082,419</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
STATEMENT OF CASH FLOWS – ENTERPRISE FUND (CONTINUED)

YEAR ENDED JUNE 30, 2021

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	<u>\$ (893,833)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	40,642
Changes in operating assets and liabilities:	
Accounts receivable	(71,302)
Prepaid expenses	(57,390)
Net OPEB asset	(767)
Lease receivable, straight-line	(169,497)
Deferred outflows of resources	260
Accounts payable and accrued expenses	(97,816)
Accrued salaries	(6,415)
Due to General Fund	1,646,088
Accrued annual leave	495
Unearned revenues	(18,180)
Deposits payable	(2,735)
Net pension liability	35,274
Net OPEB liability	(7,317)
Deferred inflows of resources	<u>(17,040)</u>
Total adjustments	<u>1,274,300</u>
Net cash provided by operating activities	<u><u>\$ 380,467</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 1—Nature and purpose of organization

The Fort Monroe Authority (the “Authority”) is a political subdivision of the Commonwealth of Virginia (the “Commonwealth”), created by legislative action of the Virginia General Assembly in 2011 to preserve, protect, and manage Fort Monroe and Old Point Comfort after the federal Base Realignment and Closure Commission (BRAC) closure in September 2011. It is a separate and distinct legal entity that is governed by a 14-member Board of Trustees (the “Board”). The Board includes 12 voting members comprised of two members of the General Assembly, two appointees selected by the City of Hampton, Virginia (the “City”) and eight appointees selected by the Governor of Virginia, as well as two non-voting ex officio members of the Governor’s Cabinet.

The Authority is considered a component unit of the Commonwealth, as its Board is primarily appointed by the Commonwealth and, as such, the Authority is included as a discretely presented component unit in the basic financial statements of the Commonwealth.

The Authority has been funded primarily through intergovernmental revenues provided by the Commonwealth and the Federal Office of Economic Adjustment. In August 2010, through leases with the United States Army (the “Army”), the Authority began subleasing residential and commercial properties on Fort Monroe for business-type revenues.

On June 14, 2013, when the Governor of Virginia signed a Quitclaim Deed transferring ownership of a 312.75-acre parcel of the Fort Monroe property from the Army to the Commonwealth, the Authority has been responsible for the operations of the utilities, maintenance, and security of the property while the Army and the Authority complete the conveyance process of the remainder of the 565-acre Fort Monroe property to the Commonwealth and National Park Service. As of June 30, 2021, the Army retains ownership of 4.97 acres of reversionary land as well as 122.29± acres of federal surplus land that will be transferred directly to the Department of the Interior as part of the Fort Monroe National Monument.

Note 2—Summary of significant accounting policies

Government-Wide and Fund Financial Statements – The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. For 2021, Authority had two funds:

General Fund – The General Fund is the primary operating fund of the Authority. It accounts for the Authority’s financial resources from state and federal funding. In general, the General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Enterprise Fund – The Enterprise Fund accounts for the Authority’s financial resources generated from leasing residential and commercial rental properties; billing the tenants, both commercial and residential, for natural gas, water, and sewer; providing free and ticketed special event activities and event space rentals to public and private parties; and leasing marina slips.

The government-wide Statement of Net Position reports all financial and capital resources of the Authority’s governmental and business-type activities. It is presented in a net position format (assets plus deferred outflows less liabilities and deferred inflows equal net position) and shown with three components: net investment in capital assets, restricted net position, and unrestricted net position.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

Activity between funds that are representative of lending/borrowing arrangements are referred to as “internal balances” and represent the amount outstanding at the end of the fiscal year between governmental and business-type activities.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The program revenues must be directly associated with the function.

Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues are presented as general revenues.

Separate fund financial statements are provided for the General Fund and the Enterprise Fund activities and report additional and detailed information about the Authority’s operations. A reconciliation is provided that converts the results of the governmental fund accounting to the government-wide presentation.

Basis of Accounting – The government-wide and Enterprise Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

General Fund financial statements are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Authority considers all revenues available if collected within 60 days after year-end. Expenditures are recognized when the related fund liability is incurred.

Enterprise Fund distinguishes between operating revenues and expenses and nonoperating items. Operating revenues result from providing residential housing and commercial space for rent as well as charges for utility and special events. Operating expenses for these operations include all costs related to providing the service – facilities maintenance and operation, general and administrative (salaries and benefits, telecommunications, supplies, postage, insurance), utility costs, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In both funds, when both restricted and unrestricted resources are available for a particular use, it is the Authority’s policy to use restricted resources first.

The Authority adopts an annual budget for the General Fund. The budget has been prepared on a basis consistent with the modified accrual basis of accounting and accounting principles generally accepted in the United States of America (“U.S. GAAP”). A budgetary comparison schedule has been provided in the required supplementary information to demonstrate compliance with the budget.

Cash and Cash Equivalents – The Authority has defined cash and cash equivalents to include cash on hand, security deposits, and certificates of deposit, regardless of maturity date.

Prepaid Expenses – Certain payments to vendors represent applicable to future periods and are recorded as prepaid items in the basic financial statements.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

Capital Assets – The Authority defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost in the government-wide and Enterprise Fund financial statements. Donated assets are recorded at acquisition value.

Capital assets are depreciated using the straight-line method over the estimated lives as follows:

Motor vehicle equipment	5 years
Furniture and equipment	5 to 7 years

The Commonwealth, not the Authority, owns the Fort Monroe property; however, the Authority, in the course of its operations and management, is responsible for the upkeep and improvement of the property. At the advisement of the Commonwealth, all equipment acquisitions with an individual cost of \$50,000 and all land, building, and infrastructure acquisitions with an individual cost of \$100,000 will be transferred to the Commonwealth as capital assets. All acquisitions not meeting these thresholds will be expensed on the Authority's books. Construction in process represents assets under construction expected to meet the transfer threshold.

Lease Receivable, Straight-Line – The Authority accrues rental income on a straight-line basis over the terms of the respective leases which results in an unbilled rent receivable or rent liability.

Unearned Revenues – Unearned revenues consist of prepayments for fees charged by the Enterprise fund.

Deposits Payable – Deposits payable consist of up-front rent deposits received for commercial and residential leases as well as deposits received for special events.

Accrued Annual Leave – Employees accrue leave each pay period based on years of service. Unused accrued leave is paid to employees upon resignation, retirement, permanent disability, or other termination of employment, provided the employee has supplied proper and timely notice of such action and employee has more than six months service. The Authority has established maximums for annual carryforward balances and for maximum payment of unused leave, based on years of service. The current portion of accrued leave is based on historical annual leave used.

Pension and Other Postemployment Benefits ("OPEB") – For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Authority's plans and the additions to/deductions from the Authority's plans net fiduciary net position have been determined on the same basis as they were reported by the Virginia Retirement System ("VRS" or the "System") and the Department of Human Resource Management ("DHRM"). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period, and so it will not be recognized as an expense until then. The Authority's deferred outflows of resources related to pensions and OPEB consist of the difference between expected and actual experience, changes of assumptions, changes in proportion and differences between employer contributions and proportionate share of contributions, and employer contributions subsequent to the measurement date.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so it will not be recognized as revenue until then. The Authority's deferred inflows of resources related to pensions and OPEB consist of the difference between expected and actual experience, changes of assumptions, the net difference between projected and actual earnings on plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions.

Amounts reported as deferred outflows of resources related to pensions and OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the liability the following year. Other amounts reported as deferred inflows and deferred outflows of resources will be amortized according to the actuarial amortization calculation. See Notes 9, 10, and 11 for further details.

Fund Balance – In accordance with U.S. GAAP, the Authority may classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Authority has spending constraints imposed upon the use of the resources in the governmental fund.

Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of governments or is imposed by law through constitutional provisions or enabling legislation. The Authority can be compelled by an external party to use resources only for the purposes specified.

Committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of Commonwealth of Virginia legislature or the Authority's Board. Those committed amounts cannot be used for any other purpose unless the same type of formal action is taken to remove or change the specified commitment. Committed fund balance classification may be redeployed for other purposes with appropriate, formal action.

Assigned fund balance amount classification is intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Commissioners, appointed in accordance with the provisions of the Enabling Act.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

FORT MONROE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

Net Position – Net position represents the residual interest in the Authority’s assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when constraints are imposed by third parties by enabling legislation.

Note 3—Cash and cash equivalents

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by Federal Depository Insurance.

At June 30, 2021, the Authority had \$5,132,979 in bank deposits and \$922,123 in restricted deposits. \$8,686 represents flex spending accounts available for the employees. \$586,000 represents homeless trust fund accounts available for the benefit of homeless persons. Security deposits of \$276,053 and \$51,384 represent deposits held for tenants who have leased the residential and commercial properties, respectively. The differences between these amounts and the balances reflected on the statement of net position is comprised of checks written and deposits and transfers made before year-end that did not clear the bank until after year-end. Also included in deposits payable are deposits received for venue rentals, these deposits are generally non-refundable and are, therefore, not included in restricted cash.

Operating accounts:	
General Fund	\$ 2,054,564
Enterprise Fund	2,754,982
Total operating accounts	<u>4,809,546</u>
Restricted accounts:	
General Fund:	
Flex spending accounts	8,686
Homeless support services	586,000
Enterprise Fund:	
Security deposits on residential leases	276,053
Security deposits on commercial leases	51,384
Total restricted accounts	<u>922,123</u>
Total cash and cash equivalents	<u>\$ 5,731,669</u>

FORT MONROE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

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Note 4—Capital assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2021:

	Governmental Activities			Balance June 30, 2021
	Balance July 1, 2020	Increases	Decreases	
Capital assets not depreciated:				
Donated artifacts for museum	\$ 59,705	\$ -	\$ -	\$ 59,705
Total capital assets not depreciated	<u>59,705</u>	<u>-</u>	<u>-</u>	<u>59,705</u>
Capital assets being depreciated:				
Motor vehicle equipment	20,210	-	-	20,210
Furniture and equipment	169,709	-	-	169,709
Total capital assets being depreciated	<u>189,919</u>	<u>-</u>	<u>-</u>	<u>189,919</u>
Less accumulated depreciation:				
Motor vehicle equipment	(20,210)	-	-	(20,210)
Furniture and equipment	(159,956)	(2,090)	-	(162,046)
Total accumulated depreciation	<u>(180,166)</u>	<u>(2,090)</u>	<u>-</u>	<u>(182,256)</u>
Total capital assets being depreciated, net	<u>9,753</u>	<u>(2,090)</u>	<u>-</u>	<u>7,663</u>
Total capital assets	<u>\$ 69,458</u>	<u>\$ (2,090)</u>	<u>\$ -</u>	<u>\$ 67,368</u>
	Business-type Activities			
	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital assets being depreciated				
Leasing commissions	\$ 344,513	\$ 23,480	\$ -	\$ 367,993
Motor vehicle equipment	35,666	-	-	35,666
Furniture and equipment	34,520	-	-	34,520
Total capital assets being depreciated	<u>414,699</u>	<u>23,480</u>	<u>-</u>	<u>438,179</u>
Less accumulated depreciation				
Leasing commissions	(47,549)	(38,831)	-	(86,380)
Motor vehicle equipment	(28,043)	(1,811)	-	(29,854)
Furniture and equipment	(34,520)	-	-	(34,520)
Total accumulated depreciation	<u>(110,112)</u>	<u>(40,642)</u>	<u>-</u>	<u>(150,754)</u>
Total capital assets being depreciated, net	<u>304,587</u>	<u>(17,162)</u>	<u>-</u>	<u>287,425</u>
Total capital assets	<u>\$ 304,587</u>	<u>\$ (17,162)</u>	<u>\$ -</u>	<u>\$ 287,425</u>

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
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Note 4—Capital assets (continued)

As discussed in Note 1, all land, building, and infrastructure acquisitions with an individual cost of \$100,000 are transferred to the Commonwealth as capital assets. There were no assets transferred to the Commonwealth during the year ended June 30, 2021.

Depreciation on assets of governmental activities is charged to the Authority's planning and development expense function and depreciation on assets of business-type activities is charged to the Authority's property administration and maintenance function.

Note 5—Accrued annual leave

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2021:

	Governmental Activities			Balance June 30, 2021
	Balance July 1, 2020	Additions	Deletions	
Accrued annual leave	\$ 75,965	\$ 35,196	\$ 26,514	\$ 84,647

	Business-type Activities			Balance June 30, 2020
	Balance July 1, 2019	Additions	Deletions	
Accrued annual leave	\$ 14,328	\$ 13,518	\$ 13,023	\$ 14,823

Leave balances are renewed on an annual basis with maximum annual carryover limitations; as such, the balances are deemed to be short-term in nature.

Note 6—Internal balances

In general, invoices received that encompass expenditures from both funds are paid from the General Fund, creating an internal balance with the Enterprise Fund. The outstanding balance of \$20,496,904 at June 30, 2021, primarily represents property insurance, utilities, and PILOT fees (payments in lieu of taxes) paid from the General Fund for the residential, commercial, public events, marina, and utility fund business-type divisions and to fund the operations of the Commercial Division. The total internal balances due from the Commercial Division and Utilities Division, totaling \$12,937,518 and \$7,557,518, respectively, at June 30, 2021, are not anticipated to be repaid within one year.

Note 7—Deferred compensation plan

The Authority's employees are eligible to participate in the Commonwealth of Virginia's 457 Deferred Compensation Plan (the "Plan") available through the VRS. The Plan permits employees to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship, and/or reaching age 70½. The Plan offers a selection of investment options to participants.

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Note 8—Note payable

On September 18, 2017, the Authority obtained a commercial promissory note for the purpose of funding the costs of the Building 96 renovation project. The promissory note acts as a line of credit with a total maximum balance of \$1,200,000. On August 23, 2019, the loan was converted to a permanent loan and payment terms of the loan changed as follows: monthly installments of \$3,432 of principal and interest at 4.85% beginning September 23, 2019, through the maturity date of August 23, 2031. The loan was paid in full on June 3, 2021. The following is a summary of the Authority's change in long-term debt for the year ended June 30, 2021:

	Business-type Activities				
	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021	Due Within One Year
Promissory note	\$ 353,311	\$ -	\$ (353,311)	\$ -	\$ -

Note 9—Pension plans

Plan Description

All full-time, salaried, permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the VRS along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table on the following pages.

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JUNE 30, 2021

Note 9—Pension plans (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1</p> <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.</p>	<p>About Plan 2</p> <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, service credit, and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains, or losses, and any required fees.
<p>Eligible Members</p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><i>Hybrid Opt-In Election</i></p> <p>VRS Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members</p> <p>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><i>Hybrid Opt-In Election</i></p> <p>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members</p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p><i>*Non-Eligible Members</i></p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the Virginia Law Officers' Retirement System (VaLORS) <p>Those employees eligible for an optional retirement plan ("ORP") must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 9—Pension plans (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions</p> <p>State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pretax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions</p> <p>Same as Plan 1.</p>	<p>Retirement Contributions</p> <p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Service Credit</p> <p>Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Service Credit</p> <p>Same as Plan 1.</p>	<p>Service Credit</p> <p><i>Defined Benefit Component:</i> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><i>Defined Contributions Component:</i> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>

FORT MONROE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 9—Pension plans (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting</p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p><i>Defined Benefit Component:</i> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><i>Defined Contributions Component:</i> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distributions not required, except as governed by law.</p>
<p>Calculating the Benefit</p> <p>The basic benefit is determined using the average final compensation, service credit, and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><i>Defined Benefit Component:</i> See definition under Plan 1</p> <p><i>Defined Contribution Component:</i> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

FORT MONROE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 9—Pension plans (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Average Final Compensation A member's average final compensation is the average of the 36-consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60-consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier <i>Defined Benefit Component:</i> The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. <i>Defined Contribution Component:</i> Not applicable.</p>
<p>Normal Retirement Age Age 65.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p>	<p>Normal Retirement Age <i>Defined Benefit Component:</i> Same as Plan 2. <i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.</p>	<p>Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least five years (60 months) of service credit or when their age and service equal 90.</p>	<p>Earliest Unreduced Retirement Eligibility <i>Defined Benefit Component:</i> Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age and service equal 90. <i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p>	<p>Earliest Reduced Retirement Eligibility Age 60 with at least five years (60 months) of service credit.</p>	<p>Earliest Reduced Retirement Eligibility <i>Defined Benefit Component:</i> Age 60 with at least five years (60 months) of service credit. <i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 9—Pension plans (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The COLA matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><i>Eligibility:</i> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><i>Exceptions to COLA Effective Dates:</i> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability. • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. <p>The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The COLA matches the first 2% increase in the CPIU and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><i>Eligibility:</i> Same as Plan 1</p> <p><i>Exceptions to COLA Effective Dates:</i> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><i>Defined Benefit Component:</i> Same as Plan 2.</p> <p><i>Defined Contribution Component:</i> Not applicable.</p> <p><i>Eligibility:</i> Same as Plan 1 and Plan 2.</p> <p><i>Exceptions to COLA Effective Dates:</i> Same as Plan 1 and Plan 2.</p>

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JUNE 30, 2021

Note 9—Pension plans (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (“VSDP”), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (“VSDP”), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage</p> <p>State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (“VSDP”), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service</p> <p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave, or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement, and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service</p> <p>Same as Plan 1.</p>	<p>Purchase of Prior Service</p> <p><i>Defined Benefit Component:</i> Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p><i>Defined Contribution Component:</i> Not applicable.</p>

Contributions

The contribution requirement for active employees is governed by Section 51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each state agency’s contractually required contribution rate for the year ended June 30, 2021, was 14.46% of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS State Employee Retirement Plan were \$225,475 and \$204,850 for the years ended June 30, 2021 and 2020, respectively.

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Note 9—Pension plans (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the Authority reported a liability of \$2,463,976 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2020 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2019. The Authority's proportion of the Net Pension Liability was based on the Authority's actuarially determined employer contributions to the pension plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the Authority's proportion of the VRS State Employee Retirement Plan was 0.03401% as compared to 0.03478% at June 30, 2019.

For the year ended June 30, 2021, the Authority recognized pension expense of \$345,118 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2019 and June 30, 2020, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 27,949	\$ 25,073
Change in assumptions	102,357	-
Net difference between projected and actual earnings on pension plan investments	191,683	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	71,570	98,620
Employer contributions subsequent to measurement date	225,475	-
	<u>\$ 619,034</u>	<u>\$ 123,693</u>

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Note 9—Pension plans (continued)

\$225,475 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,

2022	\$ 78,342
2023	72,401
2024	57,596
2025	61,527
	<u>\$ 269,866</u>

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2019, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

Inflation	2.5%
Salary increases, including Inflation	3.5% – 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

* Administrative expenses, as a percent of the market value of assets for the last experience study, were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for U.S. GAAP purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back one year, 85% of rates; females set back one year.

Postretirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward one year; females set back one year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

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Note 9—Pension plans (continued)

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Net Pension Liability

The net pension liability (“NPL”) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with U.S. GAAP, less that system’s fiduciary net position. As of June 30, 2020, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

State Employee Retirement Plan

Total pension liability	\$ 26,014,925
Plan fiduciary net position	<u>18,770,068</u>
Employers' net pension liability	<u>\$ 7,244,857</u>

Plan fiduciary net position as a percentage of the total pension liability 72.15%

The total pension liability is calculated by the System’s actuary and each plan’s fiduciary net position is reported in the System’s financial statements. The net pension liability is disclosed in accordance with the requirements of U.S. GAAP in the System’s notes to the financial statements and required supplementary information.

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Note 9—Pension plans (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Assets Class Strategy</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return *</u>
Public equity	34.00%	4.65%	1.58%
Fixed income	15.00%	0.46%	0.07%
Credit strategies	14.00%	5.38%	0.75%
Real assets	14.00%	5.01%	0.70%
Private equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnerships	3.00%	6.49%	0.19%
	<u>100.00%</u>		<u>4.64%</u>
Inflation			2.50%
Expected arithmetic nominal return*			<u>7.14%</u>

* The above allocation provides a one-year expected return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the pension system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%

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Note 9—Pension plans (continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the state agency for the VRS State Employee Retirement Plan will be subject to the portion of the VRS board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority’s proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 6.75%, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (5.75%) or one-percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Authority’s proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	<u>\$ 3,492,012</u>	<u>\$ 2,463,976</u>	<u>\$ 1,599,574</u>

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at varetire.org/Pdf/Publications/2020-annual-report.pdf, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

Payables to the Pension Plan

At June 30, 2021, no amounts were payable to VRS.

Note 10—Other postemployment benefit plans – VRS plans

The Authority participates in one multiple-employer, cost-sharing plans offered by VRS: Group Life Insurance Program (“GLIP”), and two single-employer plans that are presented as multiple-employer, cost-sharing plans: State Employee Health Insurance Credit Program (“HICP”) and Virginia Sickness and Disability Program (“VSDP”).

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Note 10—Other postemployment benefit plans – VRS plans (continued)

Fiduciary Net Position

Detailed information about the GLIP, HICP, and VSDP Fiduciary Net Position is available in the separately issued VRS 2020 Annual Report. A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at varetire.org/publications/2020-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

The actuarial assumptions, long-term expected rate of return, and discount rate are the same for the VRS OPEB programs. As such, the presentation of the actuarial assumptions and long-term expected rate of return are combined below. Specific information for the OPEB plans will be presented after this section.

Actuarial Assumptions

Actuarial assumptions used for the VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The actuarial assumptions are discussed in detail at Note 9.

Long-Term Expected Rate of Return

Long-term expected rate of return used for the VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The long-term expected rate of is discussed in detail at Note 9.

Discount Rate

The discount rate used for the VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The discount rate is discussed in detail at Note 9.

Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS HICP. This plan is administered by the VRS, along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

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Note 10—Other postemployment benefit plans – VRS plans (continued)

The specific information about the State HICP OPEB, including eligibility, coverage, and benefits is set out in the table below:

HICP Plan Provisions
<p>Eligible Employees</p> <p>The HICP was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS, and JRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS, and JRS.
<p>Benefit Amounts</p> <p>The HICP provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • <i>At Retirement:</i> For state employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. • <i>Disability Retirement:</i> For state employees, other than state police officers, who retire on disability or go on long-term disability under the VSDP, the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher. <p>For state police officer employees with a non-work-related disability who retire on disability or go on long-term disability under the VSDP, the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.</p> <p>For state police officers with a work-related disability, there is no benefit provided under the HICP if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.</p>
<p>HICP Notes</p> <ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual's premium amount. • Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the Health Insurance Credit as a retiree.

Contributions

The contribution requirement for active employees is governed by Section 51.1-1400(D) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2021 was 1.12% of covered employee compensation for employees in the VRS HICP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS HICP were \$17,464 and \$17,809 for the years ended June 30, 2021 and 2020, respectively.

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Note 10—Other postemployment benefit plans – VRS plans (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the Authority reported a liability of \$193,975 for its proportionate share of the VRS HICP net OPEB liability. The net VRS HICP OPEB liability was measured as of June 30, 2020 and the total VRS HICP OPEB liability used to calculate the net VRS HICP OPEB liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Authority's proportion of the net VRS HICP OPEB liability was based on the Authority's actuarially determined employer contributions to the VRS HICP OPEB plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2020, the Authority's proportion of the VRS HICP was 0.02113% as compared to 0.02168% at June 30, 2019.

For the year ended June 30, 2021, the Authority recognized VRS HICP OPEB expense of \$17,699. Since there was a change in proportionate share between measurement dates, a portion of the VRS HICP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VRS HICP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 3,231	\$ 920
Differences between expected and actual experience	83	2,911
Net difference between projected and actual earnings on OPEB plan investments	954	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,148	16,963
Employer contributions subsequent to the measurement date	17,464	-
	<u>\$ 38,880</u>	<u>\$ 20,794</u>

\$17,464 reported as deferred outflows of resources related to the HICP OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net HICP OPEB liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HICP OPEB will be recognized in the HICP OPEB expense in future reporting periods as follows:

Years Ended June 30,

2022	\$ 830
2023	948
2024	2,207
2025	(2,067)
2026	(1,296)
	<u>\$ 622</u>

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Note 10—Other postemployment benefit plans – VRS plans (continued)

Net HICP OPEB Liability

The net OPEB liability (“NOL”) for the HICP represents the program’s total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the VRS State Employee HICP is as follows (amounts expressed in thousands):

State Employee HICP OPEB Plan

Total HICP OPEB liability	\$ 1,043,382
Plan fiduciary net position	<u>125,378</u>
Net HICP OPEB liability	<u>\$ 918,004</u>
Plan fiduciary net position as a percentage of the total HICP OPEB liability	12.02%

The total HICP OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net HICP OPEB liability is disclosed in accordance with the requirements of U.S. GAAP in the System’s notes to the financial statements and required supplementary information.

Sensitivity of the Authority’s Proportionate Share of the HICP Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority’s proportionate share of the VRS net HICP OPEB liability using the discount rate of 6.75%, as well as what the Authority’s proportionate share of the net HICP OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (5.75%) or one-percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Authority’s proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	<u>\$ 214,944</u>	<u>\$ 193,975</u>	<u>\$ 175,931</u>

Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLIP upon employment. This plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the basic group life insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members’ paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLIP OPEB.

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Note 10—Other postemployment benefit plans – VRS plans (continued)

The specific information for GLIP OPEB, including eligibility, coverage and benefits is set out in the table below:

GLIP Plan Provisions
<p>Eligible Employees</p> <p>The GLIP was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Norfolk • City of Portsmouth • City of Richmond • City of Roanoke • Roanoke City School Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the GLIP have several components.</p> <ul style="list-style-type: none"> • <i>Natural Death Benefit:</i> The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. • <i>Accidental Death Benefit:</i> The accidental death benefit is double the natural death benefit. • <i>Other Benefit Provisions:</i> In <i>addition</i> to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the GLIP are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p>Minimum Benefit Amount and COLA</p> <p>For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.</p>

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Note 10—Other postemployment benefit plans – VRS plans (continued)

Contributions

The contribution requirements for the GLIP are governed by Section 51.1-506 and Section 51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLIP was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% X 60%) and the employer component was 0.54% (1.34% X 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2021, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLIP from the entity were \$8,420 and \$7,915 for the years ended June 30, 2021 and 2020, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the Authority reported a liability of \$123,493 for its proportionate share of the net GLIP OPEB liability. The net GLIP OPEB liability was measured as of June 30, 2020, and the total GLIP OPEB liability used to calculate the net GLIP OPEB liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the net GLIP OPEB liability was based on the covered employer's actuarially determined employer contributions to the GLIP for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was 0.00740% as compared to 0.00753% at June 30, 2019.

For the year ended June 30, 2021, the Authority recognized GLIP OPEB expense of \$5,577. Since there was a change in proportionate share between measurement dates, a portion of the GLIP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLIP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,921	\$ 1,109
Change in assumptions	6,176	2,579
Net difference between projected and actual earnings on OPEB program investments	3,710	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,936	11,114
Employer contributions subsequent to measurement date	8,420	-
	<u>\$ 38,163</u>	<u>\$ 14,802</u>

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Note 10—Other postemployment benefit plans – VRS plans (continued)

\$8,420 reported as deferred outflows of resources related to the GLIP OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net GLIP OPEB liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLIP OPEB will be recognized in the GLIP OPEB expense in future reporting periods as follows:

Years Ended June 30,

2022	\$	2,728
2023		3,776
2024		5,102
2025		3,256
2026		83
Thereafter		(4)
	<u>\$</u>	<u>14,941</u>

Net OPEB Liability

The NOL for the GLIP represents the program's total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the GLIP is as follows (amounts expressed in thousands):

Group Life Insurance OPEB Plan

Total GLIP OPEB liability	\$	3,523,937
Plan fiduciary net position		<u>1,855,102</u>
Employer's net GLI OPEB liability	<u>\$</u>	<u>1,668,835</u>
Plan fiduciary net position as a percentage of the total GLI OPEB liability		52.64%

The total GLIP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net GLIP OPEB liability is disclosed in accordance with the requirements of U.S. GAAP in the System's notes to the financial statements and required supplementary information.

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLIP OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLIP OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (5.75%) or one-percentage point higher (7.75%) than the current rate:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Authority's proportionate share of the GLIP Net OPEB Liability	<u>\$ 162,342</u>	<u>\$ 123,493</u>	<u>\$ 91,945</u>

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Note 10—Other postemployment benefit plans – VRS plans (continued)

Virginia Sickness and Disability Program

Plan Description

All full-time and part-time permanent salaried state employees who are covered under the VRS, the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) hired on or after January 1, 1999 are automatically covered by the VSDP upon employment. The Disability Insurance Program also covers state employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

The specific information for VSDP OPEB, including eligibility, coverage and benefits is set out in the table below:

VSDP Plan Provisions
<p>Eligible Employees</p> <p>The VSDP, also known as the Disability Insurance Trust Fund was established January 1, 1999, to provide short-term and long-term disability benefits for non-work-related and work-related disabilities.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP). • State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.
<p>Benefit Amounts</p> <p>The VSDP provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • <i>Leave:</i> Sick, family and personal leave. Eligible leave benefits are paid by the employer. • <i>Short-Term Disability:</i> The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer. • <i>Long-Term Disability (LTD):</i> The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the VSDP OPEB Plan. • <i>Income Replacement Adjustment:</i> The program provides for an income replacement adjustment to 80% for catastrophic conditions. • <i>VSDP Long-Term Care Plan:</i> The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 10—Other postemployment benefit plans – VRS plans (continued)

Disability Insurance Program (VSDP) Plan Notes

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up five years of VSDP benefits.
- Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustment (COLA)

- During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
 - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
 - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).
- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the board, from the date of the commencement of the disability to the date of retirement.
 - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the state, SPORS, and VaLORS plans, with a maximum COLA of 4.00%
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the board, from the date of the commencement of the disability to the date of retirement
 - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the state, SPORS, and VaLORS plans, with a maximum COLA of 4.00%.

Contributions

The contribution requirements for the VSDP are governed by Section 51.1-1140 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the VSDP for the year ended June 30, 2021, was 0.61% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the VSDP from the Authority were \$9,512 and \$9,437 for the years ended June 30, 2021 and 2020, respectively.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 10—Other postemployment benefit plans – VRS plans (continued)

OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the Authority reported an asset of \$77,528 for its proportionate share of the net VSDP OPEB asset. The net VSDP OPEB asset was measured as of June 30, 2020, and the total VSDP OPEB liability used to calculate the net VSDP OPEB asset was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Authority's proportion of the net VSDP OPEB asset was based on the agency's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the Authority's proportion was 0.03513% as compared 0.03650% at June 30, 2019.

For the year ended June 30, 2021, the Authority recognized VSDP OPEB expense of \$7,026. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,290	\$ 16,087
Change in assumptions	1,033	3,183
Net difference between projected and actual earnings on OPEB plan investments	5,274	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,717	5,858
Employer contributions subsequent to measurement date	9,512	-
	<u>\$ 29,826</u>	<u>\$ 25,128</u>

FORT MONROE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 10—Other postemployment benefit plans – VRS plans (continued)

\$9,512 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as an adjustment of the net VSDP OPEB asset in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Years Ended June 30,

2022	\$ (2,007)
2023	(593)
2024	(486)
2025	(24)
2026	(226)
Thereafter	<u>(1,478)</u>
	<u>\$ (4,814)</u>

Net OPEB Asset

The net OPEB asset ("NOA") for the VSDP represents the program's total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2020, NOA amounts for the VSDP is as follows (amounts expressed in thousands):

Disability Insurance Program

Total VSDP OPEB liability	\$ 269,531
Plan fiduciary net position	<u>490,220</u>
Employer's net OPEB asset	<u>\$ (220,689)</u>
Plan fiduciary net position as a percentage of the total VSDP OPEB liability	181.88%

The total VSDP OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB asset is disclosed in accordance with the requirements of U.S. GAAP in the System's notes to the financial statements and required supplementary information.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 10—Other postemployment benefit plans – VRS plans (continued)

Sensitivity of the Authority's Proportionate Share of the OPEB Asset to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net VSDP OPEB asset using the discount rate of 6.75%, as well as what the Authority's proportionate share of the net VSDP OPEB asset would be if it were calculated using a discount rate that is one-percentage point lower (5.75%) or one-percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Authority's proportionate share of the VSDP Net OPEB Asset	<u>\$ (70,736)</u>	<u>\$ (77,528)</u>	<u>\$ (83,625)</u>

Note 11—Other postemployment benefit plans – DHRM plan

Plan Description

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. This program was established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management ("DHRM"). After retirement, the Authority no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

Plan Provisions

DHRM is an agency of the Commonwealth of Virginia. DHRM is the administrator of the Commonwealth's employee health insurance program. The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare.

Following are eligibility requirements for Virginia Retirement System retirees:

- He or she is a retiring state employee who is eligible for a monthly retirement benefit from the VRS, and
- He or she starts receiving (do not defer) your retirement benefit immediately upon retirement*, and
- His or her last employer before retirement was the Commonwealth of Virginia, and
- He or she is eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- He or she enrolls no later than 31 days from your retirement date.

* For VRS retirees, this means that the employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to their retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 11—Other postemployment benefit plans – DHRM plan (continued)

Effective January 1, 2017**, following are eligibility requirements for Optional Retirement Plan retirees:

- He or she is a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- His or her last employer before termination was the Commonwealth of Virginia, and
- He or she is eligible for (even if they were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of their termination, and
- He or she meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had he or she not elected the ORP, and
- He or she enroll in the State Retiree Health Benefits Program no later than 31 days from the date you lose coverage (or lose eligibility coverage) in the State Health Benefits Program for active employees due to their termination of employment.

** This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at time of their termination.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 4,400 retirees and 90,000 active employees in the program in fiscal year 2020. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

FORT MONROE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 11—Other postemployment benefit plans – DHRM plan (continued)

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2020. The DHRM selected the economic, demographic, and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 6.75% for medical and pharmacy and 4.0% for dental. The ultimate trend rates used were 4.50% for medical and pharmacy and 4.0% for dental.

Actuarial Cost Method	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2020 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.34 years
Discount Rate	2.21%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 6.75% to 4.50% Dental: 4.00%
Year of Ultimate Trend	2029
Mortality	Mortality rates vary by participant status
Pre-Retirement	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males set back one year, 85% of rates; females set back one year
Postretirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward one year; females set back one year with 1.5% increase compounded from ages 70 to 85
Post-Disablement	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date, which is June 30, 2020.

Changes of Assumptions: The following assumptions were updated since the June 30, 2019 valuation based recent experience:

- Spousal coverage – reduced the rate from 25% to 20%
- Retiree participation – reduced the rate from 50% to 45%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB, including age over 65 in pre-retirement mortality base rates.

No excise tax has been reflected due to the SECURE Act. Among the provisions was a repeal of three taxes and fees that were originally intended to help fund the Affordable Care Act (ACA); i) the excise tax on high-cost health plans (Cadillac tax); ii) the annual fee on health insurance providers; and iii) the medical device excise tax.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 11—Other postemployment benefit plans – DHRM plan (continued)

The trend rates were updated based on economic conditions as of June 30, 2020. Additionally, the discount rate was decreased from 3.51% to 2.21% based on the Bond Buyers GO 20 Municipal Bond Index.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2021, the employer reported a liability of \$134,949 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$568.8 million. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2020 and was determined by an actuarial valuation as of that date. The covered employer's proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2020, the participating employer's proportion was 0.02372% as compared to 0.02641% at June 30, 2019. For the year ended June 30, 2021, the Authority recognized Pre-Medicare Retiree Healthcare OPEB expense of \$28,583.

At June 30, 2021, the employer reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 68,708
Change in assumptions	-	110,499
Changes in proportion and differences between employer contributions and proportionate share of contributions	66,266	74,771
	<u>\$ 66,266</u>	<u>\$ 253,978</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense in future reporting periods as follows:

Years Ended June 30,

2022	\$ (53,085)
2023	(53,085)
2024	(44,536)
2025	(24,977)
2026	(10,016)
Thereafter	(2,013)
	<u>\$ (187,712)</u>

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 11—Other postemployment benefit plans – DHRM plan (continued)

Sensitivity of the Authority's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 2.21%, as well as what the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current rate:

	1.00% Decrease (1.21%)	Current Discount Rate (2.21%)	1.00% Increase (3.21%)
Authority's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability	<u>\$ 142,019</u>	<u>\$ 134,949</u>	<u>\$ 127,808</u>

Sensitivity of the Authority's Proportionate Share of OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the healthcare cost trend rate of 6.75% decreasing to 4.50%, as well as what the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.75% decreasing to 3.50%) or one percentage point higher (7.75% decreasing to 5.50%) than the current rate:

	1.00% Decrease (5.75% decreasing to 3.50%)	Current Healthcare Cost Trend Rate (6.75% decreasing to 4.50%)	1.00% Increase (7.75% decreasing to 5.50%)
Authority's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability	<u>\$ 120,975</u>	<u>\$ 134,949</u>	<u>\$ 151,343</u>

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 12—Commitments and contingencies

Payments in Lieu of Taxes

Virginia Acts of Assembly 2013 Session, Section 2.2.2342 B, stipulates “that the Authority shall pay to the City a fee on the total assessed value of all real property interests in the Authority’s Area of Operation, public and private as provided by law, divided by \$100, multiplied by the then-current real estate tax rate set by the City, minus the real estate taxes owed to the City from taxpayers within the Authority’s Area of Operation”. Additionally, this section stipulates “that properties at Fort Monroe that would not be taxed by the City if privately held shall be exempt from the fee”.

Commitments

The Authority had entered into various agreements and construction contracts during the fiscal year ended June 30, 2021. As of June 30, 2021, the balance outstanding on the agreements and contract was \$1,555,702.

Note 13—Fund balance classification

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources in the General Fund.

	<u>General Fund</u>
Nonspendable:	
Prepaid expenditures	\$ 19,350
Restricted:	
Flex savings cash account, homeless support, and Visitor Center	594,686
Unassigned	<u>22,454,481</u>
Total fund balance	<u>\$ 23,068,517</u>

Note 14—Restatement

The Authority has restated the beginning net position and fund balance to correct an understatement of accounts payable and overstatement of net position and fund balance due to a errors discovered during the year ended June 30, 2021.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 14—Restatement (continued)

The restatement had the following effect on the Authority's opening balances as of July 1, 2020:

	As of July 1, 2020		
	Governmental Activities - Statement of Net Position		
	Previously Reported	Restatement	Restated
Accounts payable and accrued expenses	\$ 64,219	\$ 243,268	\$ 307,487
Total liabilities	2,552,929	243,268	2,796,197
Net position, unrestricted	18,731,582	(243,268)	18,488,314
Net position, total	19,416,937	(243,268)	19,173,669

	Balance Sheet - General Fund		
	Previously Reported	Restatement	Restated
Accounts payable	\$ 64,219	\$ 243,268	\$ 307,487
Total liabilities	155,563	243,268	398,831
Fund balance, unassigned	20,924,651	(243,268)	20,681,383
Fund balance, total	21,484,827	(243,268)	21,241,559

	Balance Sheet - Enterprise Funds / Business-Type Activities - Statement of Net Position		
	Previously Reported	Restatement	Restated
Accounts payable and accrued expenses	\$ 627,382	\$ 55,150	\$ 682,532
Total liabilities	1,903,301	55,150	1,958,451
Unrestricted (deficit)	(16,676,288)	(55,150)	(16,731,438)
Total Net Position	(16,395,080)	(55,150)	(16,450,230)

REQUIRED SUPPLEMENTARY INFORMATION

FORT MONROE AUTHORITY**(A Component Unit of the Commonwealth of Virginia)****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET TO ACTUAL – GENERAL FUND**

YEAR ENDED JUNE 30, 2021

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Operating Revenues:				
Intergovernmental Revenues:				
State	\$ 6,554,013	\$ 6,554,013	\$ 6,541,435	\$ (12,578)
Other revenues	459,500	459,500	27,280	(432,220)
Total Revenues	<u>7,013,513</u>	<u>7,013,513</u>	<u>6,568,715</u>	<u>(444,798)</u>
Operating Expenses:				
Planning and development	5,166,605	5,166,605	4,003,293	1,163,312
Capital outlay	517,539	517,539	738,464	(220,925)
Total Expenditures	<u>5,684,144</u>	<u>5,684,144</u>	<u>4,741,757</u>	<u>942,387</u>
Excess of Revenues over Expenditures	<u>\$ 1,329,369</u>	<u>\$ 1,329,369</u>	<u>\$ 1,826,958</u>	<u>\$ 497,589</u>

See accompanying report of independent auditor.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
SCHEDULE OF AUTHORITY'S SHARE OF NET PENSION LIABILITY
VRS STATE EMPLOYEE RETIREMENT PLAN

YEAR ENDED JUNE 30,

	Plan Year					
	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.03401%	0.03478%	0.03724%	0.03139%	0.03259%	0.03513%
Employer's proportionate share of the net pension liability	\$ 2,463,976	\$ 2,198,003	\$ 2,016,000	\$ 1,830,000	\$ 2,148,000	\$ 2,151,000
Employer's covered payroll	\$ 1,522,109	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414	\$ 1,296,643	\$ 1,353,818
Employer's proportionate share of the net pension liability as a percentage of it's covered payroll	161.88%	148.78%	128.42%	146.59%	172.06%	165.89%
Plan fiduciary net position as a percentage of the total pension liability	72.15%	75.13%	77.39%	75.33%	71.29%	72.81%

*Schedule is intended to show information for 10 years. Since 2020 is the sixth year for this presentation, only five additional years of data is available. However, additional years will be included as they become available.

Note: The amounts presented have a measurement date of the previous fiscal year-end.

See accompanying report of independent auditor.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION
VRS STATE EMPLOYEE RETIREMENT PLAN

YEAR ENDED JUNE 30,

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contribution as a % of Covered Employee Payroll
2021	\$ 225,475	\$ 225,475	\$ -	\$ 1,559,298	14.46%
2020	204,850	204,850	-	1,522,109	13.46%
2019	199,743	199,743	-	1,477,394	13.52%
2018	211,770	211,770	-	1,569,830	13.49%
2017	168,411	168,411	-	1,248,414	13.49%
2016	176,344	176,344	-	1,296,643	13.60%
2015	163,461	163,461	-	1,353,818	12.07%

Schedule is intended to show information for 10 years. Since 2021 is the seventh year for this presentation, only six additional year of data is available. However, additional years will be included as they become available.

See accompanying report of independent auditor.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
SCHEDULE OF AUTHORITY'S SHARE OF NET OPEB LIABILITIES (ASSETS)

YEAR ENDED JUNE 30,

	Plan Year			
	2020	2019	2018	2017
Health Insurance Credit Program:				
Employer's proportion of the net OPEB liability	0.02113%	0.02168%	0.02331%	0.01973%
Employer's proportionate share of the net OPEB liability	\$ 193,975	\$ 200,122	\$ 213,000	\$ 179,000
Employer's covered payroll	\$ 1,522,109	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	12.74%	13.55%	13.57%	14.34%
Plan fiduciary net position as a percentage percentage of the total OPEB liability	12.02%	10.56%	9.51%	8.03%
Group Life Insurance Program:				
Employer's proportion of the net OPEB liability	0.00740%	0.00753%	0.00825%	0.00691%
Employer's proportionate share of the net OPEB liability	\$ 123,493	\$ 122,533	\$ 125,000	\$ 104,000
Employer's covered payroll	\$ 1,522,109	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	8.11%	8.29%	7.96%	8.33%
Plan fiduciary net position as a percentage percentage of the total OPEB liability	52.64%	52.00%	51.22%	48.86%

See accompanying report of independent auditor.

FORT MONROE AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

SCHEDULE OF AUTHORITY’S SHARE OF NET OPEB LIABILITIES (ASSETS)

YEAR ENDED JUNE 30,

	Plan Year			
	2020	2019	2018	2017
Disability Insurance Program:				
Employer's proportion of the net OPEB asset	0.03513%	0.03650%	0.03981%	0.03380%
Employer's proportionate share of the net OPEB asset	\$ 77,528	\$ 71,611	\$ 89,000	\$ 70,000
Employer's covered payroll	\$ 1,522,109	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the net OPEB asset as a percentage of its covered payroll	5.09%	4.85%	5.67%	5.61%
Plan fiduciary net position as a percentage percentage of the total OPEB asset	181.88%	167.18%	194.74%	186.63%
State Health Plans Programs for Pre-Medicare Retirees:				
Employer's proportion of the collective OPEB liability	0.02372%	0.02641%	0.03014%	0.02230%
Employer's proportionate share of the collective OPEB liability	\$ 134,949	\$ 179,301	\$ 303,055	\$ 288,745
Employer's covered-employee payroll	\$ 1,522,109	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the collective OPEB liability as a percentage of its covered payroll	8.87%	12.14%	19.30%	23.13%

*Schedule is intended to show information for 10 years. Since 2020 is the fourth year for this presentation, only three additional years of data is available. However, additional years will be included as they become available.

Note: The amounts presented have a measurement date of the previous fiscal year-end.

See accompanying report of independent auditor.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
SCHEDULE OF AUTHORITY'S CONTRIBUTIONS – OPEB

YEAR ENDED JUNE 30,

<u>Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>
HEALTH INSURANCE CREDIT PROGRAM					
2021	\$ 17,464	\$ 17,464	\$ -	\$ 1,559,298	1.12%
2020	17,809	17,809	-	1,522,109	1.17%
2019	17,286	17,286	-	1,477,394	1.17%
2018	18,524	18,524	-	1,569,830	1.18%
GROUP LIFE INSURANCE PROGRAM					
2021	\$ 8,420	\$ 8,420	\$ -	\$ 1,559,298	0.54%
2020	7,915	7,915	-	1,522,109	0.52%
2019	7,682	7,682	-	1,477,394	0.52%
2018	8,163	8,163	-	1,569,830	0.52%
DISABILITY INSURANCE PROGRAM					
2021	\$ 9,512	\$ 9,512	\$ -	\$ 1,559,298	0.61%
2020	9,437	9,437	-	1,522,109	0.62%
2019	9,160	9,160	-	1,477,394	0.62%
2018	10,361	10,361	-	1,569,830	0.66%

STATE HEALTH PLANS PROGRAMS FOR PRE-MEDICARE RETIREES

Contributions to this program are not based on covered payroll.

Schedule is intended to show information for 10 years. Since 2021 is the fourth year for this presentation, only three additional year of data is available. However, additional years will be included as they become available.

See accompanying report of independent auditor.

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2021

Note 1—Pension Plan and VRS OPEB Plans

Changes in Benefit Terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions – The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the changes in the discount rate, which was based on VRS board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS board action are as follows:

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Note 2—DHRM OPEB Plan

Changes in Benefit Terms – There have been no actuarially material changes to the benefit provisions since the prior actuarial valuation.

Changes of Assumptions – The following assumptions were updated since the June 30, 2019 valuation based on recent experience:

- Spousal coverage – reduced the rate from 25% to 20%
- Retiree Participation – reduced the rate from 50% to 45%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB, including age over 65 in pre-retirement mortality base rates.

No excise tax has been reflected due to the SECURE Act. Among the provisions was a repeal of three taxes and fees that were originally intended to help fund the Affordable Care Act (ACA): i) the excise tax on high-cost health plans (Cadillac tax); ii) the annual fee on health insurance providers; and iii) the medical device excise tax.

The trend rates were updated based on economic conditions as of June 30, 2020. Additionally, the discount rate was decreased from 3.51% to 2.21% based on the Bond Buyers GO 20 Municipal Bond Index.

OTHER SUPPLEMENTARY INFORMATION

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
SCHEDULE OF PLANNING AND DEVELOPMENT EXPENDITURES – GENERAL FUND

YEAR ENDED JUNE 30, 2021

Salaries and wages	\$ 1,349,214
Employee benefits	553,585
Architectural and engineering services	89,244
Legal services	45,400
Management services	48,217
Dues, subscriptions, and seminars	11,103
Fees - banking and payroll processing	8,550
Miscellaneous	144,423
Office supplies and postage	56,900
PILOT fees	29,458
Public information and relations services	117,407
Public programs signage and special events	34,181
Security	153,492
Site operating costs	1,179,477
Telephone and communications	59,272
Travel	274
Utilities and trash disposal	123,096
	<u>\$ 4,003,293</u>

COMPLIANCE SECTION

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Fort Monroe Authority
Fort Monroe, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, business-type activities, and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements and have issued our report thereon dated November 8, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Finding and Response as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Bekaert LLP". The signature is written in a cursive style with a large, stylized "C" and "B".

Virginia Beach, Virginia
November 8, 2021

FORT MONROE AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
SCHEDULE OF FINDING AND RESPONSE

YEAR ENDED JUNE 30, 2021

Finding Related to Financial Statements Reported in Accordance with Government Auditing Standards

Finding: 2021-001

Type of Finding: Material Weakness over Financial Reporting

Criteria: In accordance with accounting principles generally accepted in the United States of America, revenue should be recognized when earned and expenses should be recognized when the cost is incurred.

Condition: During our testing, accounting errors related to recordation in the correct fiscal year were identified as follows:

- \$235,248 of expenditures recorded in the current fiscal year that were for costs incurred during the previous fiscal year.
- Authority, management performed an analysis of costs incurred and identified an additional \$63,170 of costs incurred during the previous fiscal year.
- 94,835 of revenue for accrued reimbursable expenses incurred during the current fiscal year and \$94,188 of expenditures incurred during the current fiscal year that were not properly accrued in the current fiscal year.

Cause: For the prior fiscal year, Authority management did not receive an invoice for cost that fiscal year timely and no estimated accrual for those expenditures was recorded at June 30, 2020.

In the current year, Authority management did not record an estimate for certain expenses, nor did management record related reimbursable revenues.

Effect: The Authority's prior fiscal year accounts payable balance for the General Fund and Governmental Activities' opinion units were understated by \$243,268 and the General Fund and Governmental Activities' fund balance and net position, respectively, were overstated by \$243,268.

The Authority's prior fiscal year Enterprise Fund and Business-type Activities' accounts payable and net position were understated and overstated, respectively, by \$55,150.

Due to these out of period errors, related current fiscal year accounts payable, accrued expenses, expenditures, expenses, revenue, fund balance, and net position, respectively, were materially misstated in the General Fund and Governmental Activities' opinion units.

Recommendation: We recommend the Authority implement procedures to review all expected material costs incurred, but not billed, for the fiscal year and accrue those costs in the period incurred. Additionally, the Authority should implement procedures to review all expenses accrued to ensure revenue for reimbursable expenses is recognized in the period earned.

Management's Response: To ensure expenses are accurately recorded for the fiscal year, prior to the year-end close for the fiscal year, the Authority's Accounting Department will send notices to all department directors and all principal contractors requesting information on projects or work orders commenced prior to June 30 for which invoices will be received after June 30. The Authority will accrue for any expenses related to the current fiscal year. Prior to the field work in August, the Authority will review all invoices received after the audit trial balance and will again send notices to all department directors and all principal contractors for any additional information on projects or work orders prior to June 30. The Authority will incorporate any additional expense accruals in the adjusted trial balance for the field work. Prior to the completion of the draft financials, the Authority's Accounting Manager will review all invoices received after June 30 and will send notices to all department directors and principal contractors for any final expenses that should be accrued as of June 30. The Authority will make audit adjusting entries for any additional fiscal year expenses.